

AR24

THOMSON NEWSPAPERS LIMITED

ANNUAL REPORT

1976



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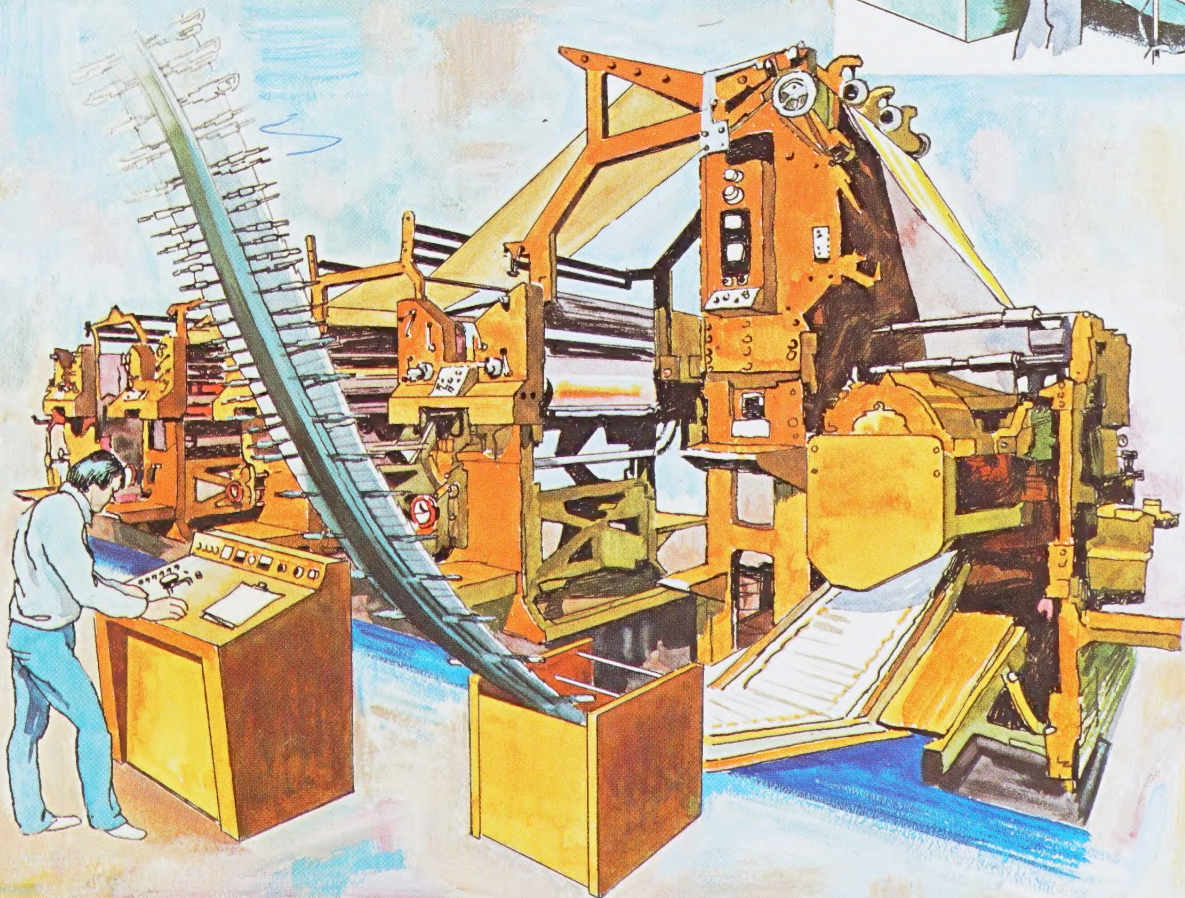
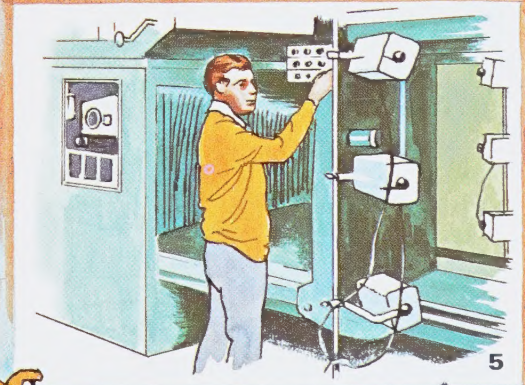
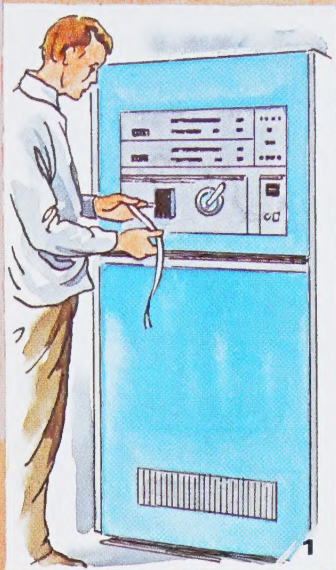
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Modernization Program Helps Produce Better Newspapers

Your Company is continuing its program of investment in new plants, modernization and replacement of obsolete equipment with the latest in integrated, computerized (electronic) production facilities.

Typical of the latest production technology now in operation is shown on facing page. (1) Videosetter, producing photo-typeset copy from perforated tape or electronic impulse. (2) Unified Composer, a versatile mini-computer and editing terminal capable of automatically translating typewritten copy to typesetting logic, and with storage and retrieval capabilities. (3) Typical keyboard unit for versatile advertising typography. (4) Computerized systems centre, integrated functions of many units. (5) Modern camera equipment to produce film masters. (6) Editing Terminal, for direct news composition. (7) Typical modern conveyer, from press to mailroom. (8) Modern, high-speed offset newspaper press.







BRITISH COLUMBIA

Nanaimo Daily Free Press, Nanaimo (1)
Kamloops Daily Sentinel, Kamloops (2)
The News, Vernon (3)
The Kelowna Daily Courier, Kelowna (4)
Penticton Herald, Penticton (5)

SASKATCHEWAN

Prince Albert Daily Herald, Prince Albert (6)
The Sun, Swift Current (7)★★
Moose Jaw Times-Herald, Moose Jaw (8)
The Yorkton Enterprise, Yorkton (9)★

ONTARIO

The Times-News, Thunder Bay (10)
The Chronicle-Journal, Thunder Bay (11)
The Daily Press, Timmins (12)
Northern Daily News, Kirkland Lake (13)

ONTARIO (cont.)

The Standard, Elliot Lake (14)★
The Standard, Espanola (15)★
The Sudbury Star, Sudbury (16)
The Sarnia Observer, Sarnia (17)
The Chatham Daily News, Chatham (18)
Leamington Post and News, Leamington (19)★
Dunnville Chronicle, Dunnville (20)★
The Evening Tribune, Welland (21)
Niagara Falls Review, Niagara Falls (22)
St. Thomas Times-Journal, St. Thomas (23)
The Daily Sentinel-Review, Woodstock (24)
The Cambridge Daily Reporter, Cambridge (25)
The Daily Mercury, Guelph (26)

ONTARIO (cont.)

Georgetown Herald, Georgetown (27)★
The Daily Times, Brampton (28)
The Orangeville Banner, Orangeville (29)★
The Hanover Post, Hanover (30)★
Enterprise-Bulletin, Collingwood (31)★
The Free Press Herald, Midland (32)★★
Daily Packet and Times, Orillia (33)
The Barrie Examiner, Barrie (34)
The Oshawa Times, Oshawa (35)
Peterborough Examiner, Peterborough (36)
The Trentonian and Tri-County News, Trenton (37)©
The Intelligencer, Belleville (38)
The Pembroke Observer, Pembroke (39)
Standard-Freeholder, Cornwall (40)

Enlargement of area indicated on map.

NEW BRUNSWICK

The Northern Light, Bathurst (41)★

NOVA SCOTIA

The Daily News, Truro (42)
The Evening News, New Glasgow (43)
Cape Breton Post, Sydney (44)

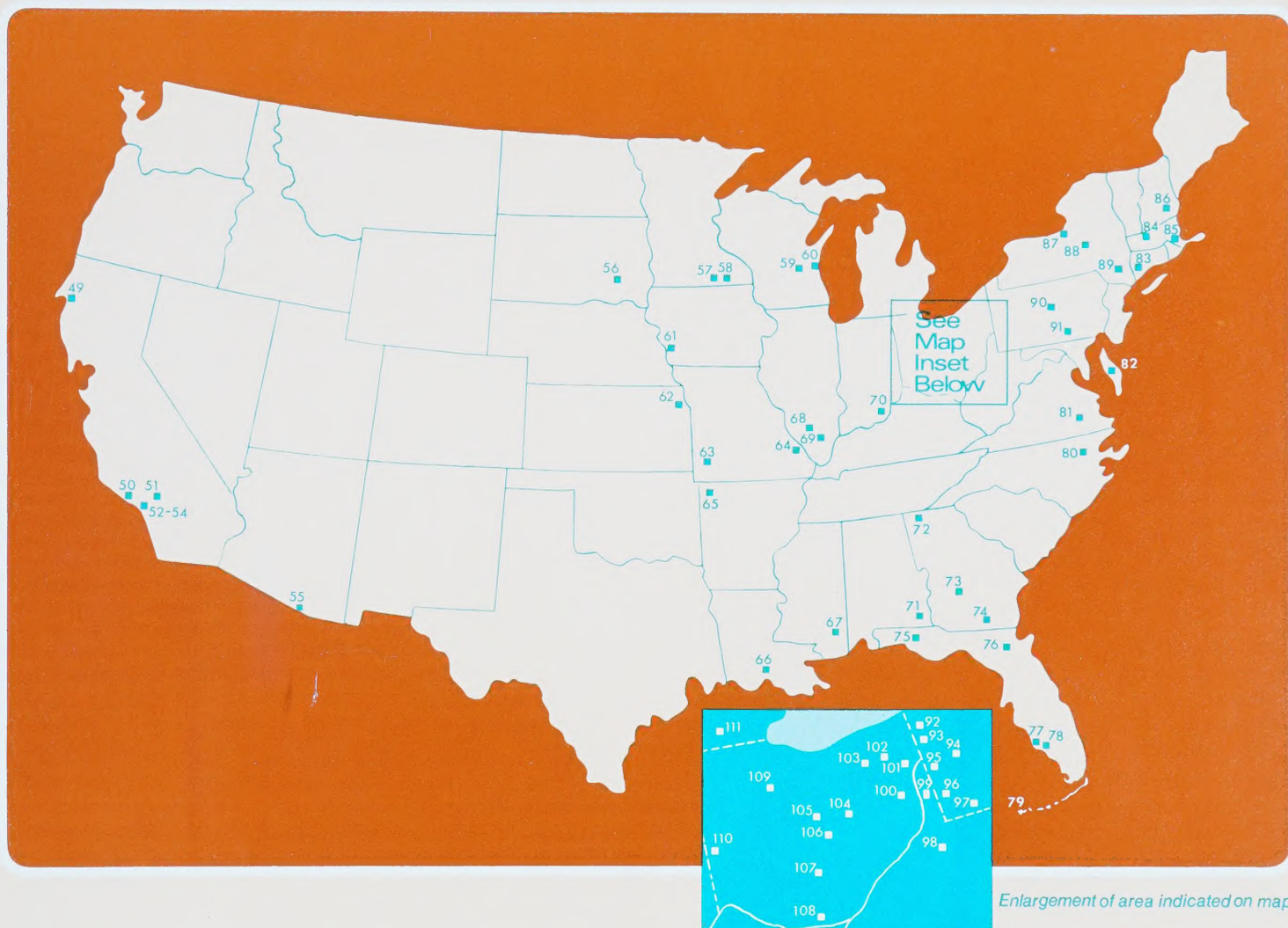
PRINCE EDWARD ISLAND

The Guardian, Charlottetown (45)
The Evening Patriot, Charlottetown (46)

NEWFOUNDLAND

The Western Star, Corner Brook (47)
The Evening Telegram, St. John's (48)

ALL NEWSPAPERS ARE PUBLISHED DAILY
except those marked as follows:
★ WEEKLY ★★ SEMI-WEEKLY © TRI-WEEKLY



Enlargement of area indicated on map.

ALABAMA

The Dothan Eagle, Dothan (67)●

ARIZONA

The Daily Dispatch, Douglas (55)

ARKANSAS

Northwest Arkansas Times, Fayetteville (65)●

CALIFORNIA

The Times-Standard, Eureka (49)●
The Press-Courier, Oxnard (50)●
San Gabriel Valley Daily Tribune, West Covina (51)●
El Monte Herald, El Monte (52)★
La Puente Valley Journal, La Puente (53)★
Rosemead Review, Rosemead (54)★

CONNECTICUT

The Evening Sentinel, Ansonia (83)

FLORIDA

Jackson County Floridan, Marianna (75)●
Orange Park Daily Clay Today, Orange Park (76)
Englewood Herald, Englewood (77)★
The Herald-News, Punta Gorda (78)
The Key West Citizen, Key West (79)●

GEORGIA

The Daily Citizen-News, Dalton (72)
The Cordele Dispatch, Cordele (73)
The Valdosta Daily Times, Valdosta (74)●
ILLINOIS
Register-News, Mount Vernon (68)
The Times-Leader, McLeansboro (69)★

INDIANA

The Tribune, New Albany (70)●

IOWA

Council Bluffs Nonpareil, Council Bluffs (61)●

KANSAS

The Leavenworth Times, Leavenworth (62)●

LOUISIANA

The Daily Advertiser, Lafayette (66)●

MARYLAND

The Daily Times, Salisbury (82)●

MASSACHUSETTS

The Daily Sentinel and Leominster Enterprise, Fitchburg (84)
Taunton Daily Gazette, Taunton (85)

MICHIGAN

Adrian Daily Telegram, Adrian (111)

MINNESOTA

Austin Daily Herald, Austin (57)
The Evening Tribune, Albert Lea (58)●

MISSISSIPPI

Laurel Leader-Call, Laurel (71)

MISSOURI

The Carthage Press, Carthage (63)
The Southeast Missourian, Cape Girardeau (64)●

NEW HAMPSHIRE

The Portsmouth Herald, Portsmouth (86)

NEW YORK

The Evening Telegram, Herkimer (87)
The Palladium-Times, Oswego (88)
The Evening News, Newburgh (89)

NORTH CAROLINA

The Evening Telegram, Rocky Mount (80)●

OHIO

Steubenville Herald-Star, Steubenville (100)●
The Evening Review, East Liverpool (101)
The Salem News, Salem (102)
The Canton Repository, Canton (103)●
The Coshocton Tribune, Coshocton (104)●
The Advocate, Newark (105)
The Times Recorder, Zanesville (106)●
Lancaster Eagle-Gazette, Lancaster (107)

OHIO (cont.)

The Portsmouth Times, Portsmouth (108)
Greenville Daily Advocate, Greenville (109)
The Marion Star, Marion (110)

PENNSYLVANIA

The Express, Lock Haven (90)
The Evening Sun, Hanover (91)
The Meadville Tribune, Meadville (92)
The Record-Argus, Greenville (93)
Leader-Times, Kittanning (94)
The Midland News, Midland (95)★
The Valley Independent, Monessen (96)
The Daily Courier, Connellsville (97)

SOUTH DAKOTA

The Daily Republic, Mitchell (56)

VIRGINIA

The Progress-Index, Petersburg (81)●

WEST VIRGINIA

The Fairmont Times-West Virginian, Fairmont (98)●
The Weirton Daily Times, Weirton (99)

WISCONSIN

Fond du Lac Reporter, Fond du Lac (59)
Manitowoc Herald-Times-Reporter, Manitowoc (60)

Officers

K. R. Thomson
Chairman of the Board and President

St. Clair McCabe
*Executive Vice-President and
 Chief Operating Officer*

Margaret L. Hamilton
Senior Vice-President

J. J. Stephenson, C.A.
Vice-President — Finance

B. W. Slaight
General Manager

J. A. Melville
Secretary-Treasurer

Directors

S. F. Chapman, C.A.
John H. Coleman
John S. Dewar
Margaret L. Hamilton
St. Clair McCabe
D. J. Peacher

B. W. Slaight
D.C.H. Stanley
J. J. Stephenson, C.A.
K. R. Thomson
John A. Tory, Q.C.

Executive Offices

Thomson Newspapers Limited,
65 Queen Street West, Toronto, Canada

Thomson Newspapers Inc.,
 3150 Des Plaines Avenue, Des Plaines, Illinois
F. C. MILES, General Manager
 4150 Belden Village Street, Canton, Ohio
D. P. HICKS, Assistant General Manager
 1111 North Westshore Boulevard, Tampa, Florida
J. KNOX DYE, Assistant General Manager

Sales Offices:

Toronto, Montreal, New York, Chicago,
 Pittsburgh

Transfer Agent

Montreal Trust Company

Toronto, Montreal, Vancouver, Calgary, Regina,
 Winnipeg and Halifax, Canada

Financial Highlights

	<u>1976</u>	<u>1975</u>
Operating revenue	\$217,561,144	\$199,257,996
Income before amortization of goodwill	\$ 41,001,902	\$ 35,245,394
Net income	\$ 40,835,659	\$ 35,154,596
Shares Outstanding		
47,614,080 Class A and 1,622,292 Class B		
(1975 — 48,913,214 Class A and 323,158 Class B)	49,236,372	49,236,372
Earnings per Class A and class B share after preference dividends		
Income before amortization of goodwill	81.6¢	69.9¢
Net income	81.3¢	69.7¢
Dividends paid		
Preference shares	\$ 817,752	\$ 850,795
Class A and Class B shares	\$ 15,066,330	\$ 13,786,184
Per share — Class A convertible	30.6¢	28.0¢
— Class B convertible	26.0¢	23.8¢

Report of the Directors

On behalf of the Board of Directors I am pleased to present the consolidated financial statements of your Company as at December 31, 1976, together with the Auditors' Report thereon.

Net income for the year ended December 31, 1976 was \$40,835,659 compared with net income of \$35,154,596 in 1975. There were no items of extraordinary income in either year. Net sales for 1976 were \$217,561,144 compared with \$199,257,996 in 1975.

Net income per Class A and Class B share, after deducting dividends on the outstanding 6-3/4% Cumulative Redeemable Preference Shares of the Company, amounted to 81.3¢ compared with 1975 net income per share of 69.7¢. There was no change in the number of shares outstanding (49,236,372) in either year. Net income and net income per Class A and Class B share are shown both before and after amortization of goodwill. The figures mentioned above are after amortization of goodwill which amounted to only about 3/10ths of a cent per share in 1976 as compared with 2/10ths of a cent in 1975.

Dividends were paid in each of the first three quarters of 1976 at the rate of 7.5¢ per Class A share and 6.375¢ per Class B share and in the last quarter at the rate of 8.1¢ per Class A share and 6.885¢ per Class B share. The Company's policy of increasing the rate of dividends on its shares in line with increases in net income has not changed. However, the increase in the rate of dividends implemented in the last quarter was the maximum 8% increase permitted under the Anti-Inflation Program.

Expenditures during the year on new plants and equipment and additions or alterations to existing plants amounted to approximately \$14,000,000. Your Company had planned to spend \$20,000,000 during the year as part of its continuing program of modernization of its production facilities and processes. However, certain of the projects were delayed and will be completed in 1977. Including the carry-over from 1976, total capital expenditures of \$19,000,000 are anticipated in 1977. Significant productivity improvements have resulted and will continue to result from this program.

During 1976 your Company acquired six daily newspapers in the United States at Orange Park and Marianna, Florida; Cordele, Georgia; Mount Vernon, Illinois; Carthage, Missouri; and Newark, Ohio, and a weekly newspaper at McLeansboro, Illinois. To date in 1977 one daily newspaper has been acquired at Cape Girardeau, Missouri. Your Company now publishes 92 daily and 19 weekly newspapers in Canada and the United States. The daily newspapers have an aggregate circulation of approximately 1,493,000.

Your Company intends to continue its policy of acquiring newspapers in small to medium-sized cities

and is in an excellent position to finance any acquisitions which become available.

A significant portion of the growth in earnings in 1976 took place in the United States where the economic recovery has been stronger than in Canada and where the Company's operations are not affected by Canada's Anti-Inflation Program. Our United States newspapers now account for a major portion of total revenues and profits. The results of our Canadian operations were within the limits imposed by the Anti-Inflation Program.

Your Company anticipates that the results of operations for 1977 will continue to show favourable progress although our Canadian operations will continue to be subject to the Anti-Inflation Program.

Lord Thomson of Fleet, the founder of your Company, died in August, 1976 at the age of 82. At the time of his death he was Honorary Chairman and a Director. Much has been written since his death about his outstanding business achievements. What made these achievements possible was not only his business genius and a great deal of hard work but also his directness and honesty, his loyalty to his friends and colleagues, his keen sense of humour and, above all, his indomitable spirit and enthusiasm. He will be remembered by us always with love and admiration.

As previously announced Lord Thomson's death will not result in any change in the policy and management of the Company nor will it result in any change in the Thomson family's controlling interest in the Company which, for many years, has been held by Lord Thomson's children and trusts for his issue.

During the year the Hon. W. E. Harris, Q.C. retired as a Director of your Company and I would like to record our appreciation for his many years of faithful service as a Director. We were delighted to welcome to the Board Messrs. John H. Coleman and John S. Dewar to fill the vacancies resulting from the death of Lord Thomson and the resignation of Mr. Harris. I am sure that these two gentlemen will be valuable additions to the Board.

On behalf of the Board I would also like to express my sincere thanks to all the officers and employees of the Company for their contribution to a very successful year.

For the Board of Directors



President

Consolidated Balance Sheet

ASSETS

	<u>1976</u>	<u>1975</u>
Current Assets		
Cash and term deposits	\$ 24,094,611	\$ 20,794,975
Trade accounts receivable less allowance for doubtful accounts	26,246,858	24,405,381
Other accounts receivable	1,649,182	1,123,115
Inventories	4,119,636	5,981,216
Prepaid expenses	631,193	785,360
	<u>56,741,480</u>	<u>53,090,047</u>
Investments and Other Assets, at cost	<u>2,100,236</u>	<u>1,922,448</u>
Fixed Assets		
Land	8,714,509	7,891,564
Buildings, machinery and equipment	114,496,491	98,495,386
	<u>123,211,000</u>	<u>106,386,950</u>
Less accumulated depreciation	50,558,640	48,530,675
	<u>72,652,360</u>	<u>57,856,275</u>
Circulation and Goodwill, at cost less amortization	<u>142,080,105</u>	<u>130,725,377</u>
	<u>\$273,574,181</u>	<u>\$243,594,147</u>

Approved by the Board

St. Clair McCabe, Director

J. J. Stephenson, Director

Papers Limited

(Laws of Ontario)

as at December 31, 1976

LIABILITIES

Current Liabilities

Accounts payable and accrued liabilities	\$ 10,777,930	\$ 9,118,717
Income and other taxes payable	5,492,607	6,284,330
Note payable January 12, 1977	9,197,036	
Principal due within one year on long-term debt	6,514,863	5,708,678
Prepaid subscriptions	2,553,483	2,126,249

	<u>34,535,919</u>	<u>23,237,974</u>
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Long-Term Debt (note 2)	<u>19,194,388</u>	<u>25,117,473</u>
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Deferred Income Taxes and Other Liabilities	<u>4,582,498</u>	<u>4,319,439</u>
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Interest of Minority Common Shareholders of Subsidiary Companies	<u>677,002</u>	<u>588,914</u>
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SHAREHOLDERS' EQUITY

Capital Stock (note 3)

Authorized

- 537,799 Preference shares with a par value of \$50 each,
issuable in series (1975 — 551,750 shares)
- 90,000,000 Class A and Class B interconvertible
participating shares without par value
- 1,000 Common shares without par value

Issued

237,799 6-3/4% Cumulative redeemable preference shares, Series A (1975 — 251,750 shares)	11,889,950	12,587,500
49,236,372 Shares consisting of 47,614,080 Class A and 1,622,292 Class B (1975 — 48,913,214 Class A and 323,158 Class B)	<u>54,208,420</u>	<u>54,208,420</u>

	<u>66,098,370</u>	<u>66,795,920</u>
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Retained Earnings	<u>148,486,004</u>	<u>123,534,427</u>
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	<u>214,584,374</u>	<u>190,330,347</u>
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	<u>\$273,574,181</u>	<u>\$243,594,147</u>
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Consolidated Statement of Income

Year ended December 31, 1976

	1976	1975
Operating revenue	\$217,561,144	\$199,257,996
Costs and operating expenses	135,345,725	127,040,555
Income from operations	82,215,419	72,217,441
Income from investments	1,451,482	1,340,884
	<u>83,666,901</u>	<u>73,558,325</u>
Depreciation	5,613,175	5,040,737
Interest on long-term debt	1,594,275	2,021,337
	<u>7,207,450</u>	<u>7,062,074</u>
Income before undernoted items	76,459,451	66,496,251
Income taxes — current	34,345,890	30,602,809
— deferred	993,374	541,846
	<u>35,339,264</u>	<u>31,144,655</u>
Interest of minority shareholders	41,120,187	35,351,596
	<u>118,285</u>	<u>106,202</u>
Income before amortization of goodwill	41,001,902	35,245,394
Amortization of goodwill	166,243	90,798
Net Income	<u>\$ 40,835,659</u>	<u>\$ 35,154,596</u>

Earnings per Class A and Class B share

Income before amortization of goodwill	81.6¢	69.9¢
Net income	81.3¢	69.7¢

The earnings per Class A and Class B share are after deducting dividends paid on the outstanding 6-3/4% preference shares.

Consolidated Statement of Retained Earnings

Year ended December 31, 1976

	1976	1975
Balance at beginning of year	\$123,534,427	\$103,016,810
Net income	40,835,659	35,154,596
	<u>164,370,086</u>	<u>138,171,406</u>
Dividends paid on		
Preference shares	817,752	850,795
Class A and Class B shares	15,066,330	13,786,184
	<u>15,884,082</u>	<u>14,636,979</u>
Balance at end of year	<u>\$148,486,004</u>	<u>\$123,534,427</u>

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1976

	<u>1976</u>	<u>1975</u>
Working capital derived from		
Operations		
Net income	\$40,835,659	\$35,154,596
Items not involving working capital		
Depreciation	5,613,175	5,040,737
Amortization of goodwill	166,243	90,798
Deferred income taxes	993,374	541,846
Interest of minority shareholders in net income of subsidiary companies	118,285	106,202
Loss on disposal of investments and fixed assets, net	1,102,838	1,179,524
	<u>48,829,574</u>	<u>42,113,703</u>
Reclassification of investments and other assets	842,911	797,670
Proceeds on disposal of investments and fixed assets	1,023,618	1,074,177
Increase in long-term debt	875,034	
Other		141,116
	<u>51,571,137</u>	<u>44,126,666</u>
Working capital applied to		
Additions to fixed assets	15,074,632	9,129,031
Acquisition of subsidiary companies less their working capital of \$1,663,614 .	19,541,102	6,293,192
Reduction in non-current liabilities		
Long-term debt	6,798,119	6,081,052
Deferred liabilities	730,315	1,110,901
Dividends paid on		
Preference shares	817,752	850,795
Class A and Class B shares	15,066,330	13,786,184
Preference shares purchased for cancellation	697,550	300,000
Other	491,849	
	<u>59,217,649</u>	<u>37,551,155</u>
Increase (decrease) in working capital	(7,646,512)	6,575,511
Working capital at beginning of year	29,852,073	23,276,562
Working capital at end of year	<u>\$22,205,561</u>	<u>\$29,852,073</u>

Notes to Consolidated Financial Statements

Year ended December 31, 1976

1. ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements include the accounts of all subsidiary companies as follows:

Canadian subsidiary companies

Atlantic Newspapers Limited, Canadian Newspapers Company Limited, The Northern Light Limited, Post Publishing Company Limited, St. John's Publishing Company Limited, Scotia Printers Limited, Thomson B.C. Newspapers Limited, Western Printing and Publishing Limited and Western Publishers Limited.

Atlantic Newspapers Limited was created through a statutory amalgamation of Atlantic Newspapers Limited and Printco Limited as at the close of business on May 31, 1976.

Canadian Newspapers Company Limited was created through a statutory amalgamation of Canadian Newspapers Company Limited, Niagara Falls Publishing Company Limited, Ontario Newspapers Company Limited and The Times-Journal of St. Thomas, Limited as at the close of business on September 30, 1976.

On November 30, 1976 Patriot Publishing Company was liquidated into Thomson Newspapers Limited.

United States subsidiary companies

The Advocate Printing Company (acquired November 30, 1976), Carthage Publishing Company, Inc. (acquired September 23, 1976), Cordele Publishing Company (acquired September 30, 1976), The Courier Company, Douglas Dispatch Inc., Greenville Newspapers Inc., Hamilton County Publishing Company (acquired September 16, 1976), Humboldt Newspapers, Inc., The Independent, Inc., Key West Newspaper Corporation, Lock Haven Express Printing Company, Mount Vernon Register-News Company (acquired September 16, 1976), Oxnard Publishing Company, The Punta Gorda Herald Inc., Rocky Mount Publishing Co., San Gabriel Valley Tribune, Inc., Thomson-Brush-Moore Newspapers, Inc., Thomson Newspapers (Florida) Inc. (Incorporated August 9, 1976), Thomson Newspapers (Illinois) Inc. (Incorporated August 25, 1976), Thomson Newspapers (Pennsylvania) Inc., Thomson Newspaper Publishing Company, Inc., Thomson Newspapers Inc., Thomson Newspapers (New Hampshire) Inc., Thomson Newspapers (Ohio) Inc., Thomson Newspapers (Wisconsin) Inc., Thomson Publications of New York Inc.

On November 30, 1976 Newburgh-Beacon News Co. Inc. was merged with Thomson Newspapers Inc.

The earnings of subsidiary companies acquired during the year, using the purchase accounting method, have been included from the respective dates of acquisition.

(b) Translation of foreign currency

The accounts of the subsidiary companies in the United States have been translated into Canadian dollars on the following basis:

- (i) current assets and current liabilities, at the exchange rate prevailing at the balance sheet date,
- (ii) all other assets and liabilities of subsidiary companies acquired, at the rate prevailing at the date of acquisition of such subsidiary companies,
- (iii) all other assets and liabilities, at the rate prevailing at the date the assets were acquired or the liabilities incurred,
- (iv) income and expenses, at the average rate for the year except for depreciation which is based on the cost of fixed assets as translated at the rate prevailing at the date of acquisition and income tax, to the extent of the unpaid balance, which is at the rate prevailing at the balance sheet date.

(c) Inventories

Inventories consist principally of newsprint and are valued at the lower of cost and replacement cost.

(d) Fixed assets and depreciation

Fixed assets are stated at cost. Depreciation is provided on the straight-line basis over their estimated useful lives as follows:

Buildings	40 years
Machinery and equipment	10 to 25 years
Furniture and fixtures	10 years
Automobiles	4 years
Leasehold improvements	over terms of leases

(e) Circulation and goodwill

Effective April 1, 1974 generally accepted accounting principles require a determination of the fair value of intangible assets acquired and the value of items designated as goodwill must be amortized over a period not exceeding forty years.

Prior to April 1, 1974 no effort was made to separate the cost of intangible assets between amounts for circulation and for goodwill. Since April 1, 1974 the company has determined the cost of circulation in each purchase. This amount will not be amortized but will be written down pro rata if the volume of circulation falls below the volume capitalized at the date of acquisition. The aggregate amount so capitalized to December 31, 1976 is \$15,019,814.

Goodwill acquired before April 1, 1974 will not be amortized, but will be written down if there should be a diminution in its value. In the opinion of management no write-down or amortization is required in respect of amounts designated as goodwill acquired after April 1, 1974 because there has been no diminution in the value. However, in accordance with the recommendations of the Canadian Institute of Chartered Accountants, such amounts will be amortized over forty years from date of acquisition. Accumulated amortization to December 31, 1976 amounted to \$263,371 (1975 — \$97,128).

Notes to Consolidated Financial Statements

Year ended December 31, 1976

2. LONG-TERM DEBT

	<u>1976</u>	<u>1975</u>
Thomson Newspapers Limited		
First mortgage bonds		
6% sinking fund bonds, 1960 series, due November 1, 1980, annual sinking fund \$150,000 ..	\$ 1,596,000	\$ 1,640,000
Thomson Newspapers Inc. and subsidiary companies		
Notes payable		
4% promissory notes payable U.S. \$1,800,000 semi-annually to December 11, 1977 (secured by a pledge of all the shares of Thomson-Brush-Moore Newspapers, Inc.) (U.S. \$3,600,000)	3,889,116	7,778,232
6 3/4% promissory notes payable annually to May 1, 1987 as follows: 1977-79 U.S. \$875,000; 1980-84 U.S. \$937,500 and 1985-87 U.S. \$1,000,000; (U.S. \$10,312,500)	11,128,425	12,005,210
Notes, with interest at 80% of prime rate, payable U.S. \$142,000 quarterly to December 30, 1984 (U.S. \$4,544,000)	4,489,926	5,051,167
Miscellaneous notes and mortgages payable (U.S. \$4,877,542)	4,901,349	4,620,759
	<u>26,004,816</u>	<u>31,095,368</u>
Less principal due within one year included in current liabilities (at current rate of exchange \$6,514,863)	<u>6,810,428</u>	<u>5,977,895</u>
	<u>\$19,194,388</u>	<u>\$25,117,473</u>
Long-term debt repayments over the next five years amount to:		
1977	\$6,810,428	
1978	2,394,360	
1979	2,224,328	
1980	3,278,088	
1981	2,007,919	

3. CAPITAL STOCK

- (a) The company has issued preference shares which are designated as 6-3/4% cumulative redeemable preference shares, series A, redeemable on or after December 15, 1977 at \$51 per share. The company is obliged, in each calendar year, to purchase for cancellation \$300,000 aggregate par value of series A preference shares in the market (if obtainable) at a price not exceeding the amount paid up thereon plus accrued dividends and costs of purchase. During 1976, 13,951 preference shares, having an aggregate par value of \$697,550 were purchased for cancellation.
- (b) Class A participating shares are convertible into Class B participating shares, and vice versa, on a one for one basis at the option of the holders thereof. The shares of each class are voting and rank equally in all respects. Dividends declared on the Class A shares are ordinary taxable dividends while dividends declared on the Class B shares are paid out of tax-paid undistributed surplus on hand and, when this source is exhausted, will be paid out of 1971 capital surplus on hand. Such dividends are free of immediate income tax under the Income Tax Act (Canada) but reduce the adjusted cost base of the shares resulting in a corresponding increase in the capital gain (or decrease in the capital loss) on disposal. Dividends on the Class B shares paid out of tax-paid undistributed surplus amount to 85% of the dividends paid on the Class A shares since the company must pay a tax of 15% to create the amount of tax-paid undistributed surplus out of which such dividends are paid.

4. DIVIDEND RESTRICTIONS

Provisions restricting the payment of dividends by the company are contained in the guarantees endorsed on the 6-3/4% promissory notes due May 1, 1987 of Thomson Newspapers Inc. Similar provisions are contained in the conditions attaching to the outstanding preference shares of the company. The most restrictive of these provisions is that the company may not pay dividends if such payment would reduce the consolidated net current assets (as defined) of the company and certain of its subsidiaries below the sum \$2,000,000. The consolidated net current assets (as defined) of the company and such subsidiaries at December 31, 1976 exceeded \$24,000,000 (see also note 8).

Notes to Consolidated Financial Statements

Year ended December 31, 1976

5. UNFUNDED PENSION OBLIGATIONS

The company has an unfunded pension plan. The estimated actuarial deficiency of the plan amounts to approximately \$800,000 and the annual contribution requirement over the period of fifteen years amounts to approximately \$70,000.

6. LONG TERM LEASE

The company leases office and storage space in a building at 65 Queen Street West, Toronto, for a term expiring in 2001 at an annual rental of approximately \$309,000. Rentals under subleases contracted to date for varying terms up to ten years, covering space not occupied by the company, aggregate approximately \$145,000 per annum.

7. ACQUISITIONS

During the year all of the outstanding capital stock of The Advocate Printing Company (Newark, Ohio), Carthage Publishing Company, Inc. (Carthage, Missouri), Cordele Publishing Company (Cordele, Georgia), Hamilton County Publishing Company (McLeansboro, Illinois) and Mount Vernon Register-News Company (Mount Vernon, Illinois) was acquired. Also purchased during the year were the assets of Clay Today (Orange Park, Florida) (June 1, 1976) and Jackson County Floridan (Marianna, Florida) (October 1, 1976).

The acquisition equation for these acquisitions is as follows:

Total assets acquired excluding circulation and goodwill	\$ 8,467,628
Circulation	<u>6,744,247</u>
	15,211,875
Less total liabilities	<u>812,183</u>
Net assets acquired at assigned values (net book value \$4,448,904)	14,399,692
Excess of cost of shares over assigned values of net assets acquired (to be amortized over 40 years)	<u>6,805,024</u>
Cash consideration at fair value	<u>\$21,204,716</u>

8. ANTI-INFLATION ACT

The company is regulated under the Anti-Inflation Act which provides for the restraint of prices, profit-margins, compensation and dividends in Canada after October 13, 1975. In the opinion of management, the company is in compliance with the requirements of the anti-inflation regulations.

9. OTHER STATUTORY INFORMATION

The direct remuneration of directors and senior officers for 1976 amounts to \$831,607 (1975 — \$859,705).

Auditors' Report

To the Shareholders of
Thomson Newspapers Limited

We have examined the consolidated balance sheet of Thomson Newspapers Limited as at December 31, 1976 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination of Thomson Newspapers Limited and those subsidiaries of which we are the auditors was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. For those subsidiaries of which we are not the auditors, we have carried out such enquiries and examinations as we considered necessary in order to rely on the reports of the other auditors for purposes of consolidation.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
March 7, 1977

Thorne Riddell & Co.
Chartered Accountants



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